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ABSTRACT

This paper presents an overview of the impact of the Latin American external debt on education in all the countries of the region. The dynamics of the adjustment programs that countries have undertaken in response to the "debt crisis" are examined featuring Costa Rica. The adjustment programs changed the climate in which educational policy decisions are made (including financial decisions). The new climate has devalued the long term giving and focused on the short term. Cuts have been made where it is easiest (politically) and not where it is more efficient (technically). The result is a set of distortions that will result in net losses in efficiency and equity in the provision of education. This paper examines the nature of those distortions. A number of tables of data are included throughout the report. A 26-item list of references is also included. (DB)

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The Impact of the Debt Crisis On Educational Development in Latin America

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The Impact of the Debt Crisis on Educational Development in Latin America.*

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1. Introduction.

This paper presents an overview of the impact of the Latin American external debt on education in all the countries of the region[1], the dynamics of the adjustment are examined in the case of Costa Rica.

A basic thesis of this paper is that the adjustment programs implemented to respond to the 'debt crisis' have changed the climate in which educational policy decisions are made (including financial decisions). The new climate has devalued the long term giving pre-eminence to the short term. Cuts have been made where it is easiest (politically) and not where it is more efficient (technically). The result are a set of distortions that will result in net losses in efficiency and equity in the provision of education. This paper examines the nature of those distortions.

2. Debt and Education in Latin America.

Latin America is, tragically, the best of all places to test the hypothesis that debt servicing can squeeze educational development. On the one hand it is a region were education expanded vigorously in the 1960s and 1970s, on the other, it is since the early 1980s the hardest hit area of the world by external debt.

In the 1950s education in Latin America began a process of remarkable quantitative expansion and development. The next 30 years were ones of optimistic goal setting, and of increased importance of the educational sector in the development agendas of Latin American governments. An outline of that history can be obtained by following the regional conferences of Ministers of

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* Presented at the Annual Conference of the Comparative and International Education Society. Anaheim, California. March 1990.

[1] By Latin America I refer to the countries of the Region sharing historical and institutional heritage, namely the spanish speaking countries, plus Brazil and Haiti.

Education[2].

In 1956, the first regional conference in Lima, Peru (which was called the Conference on Free and Compulsory Education) set the stage for the impressive quantitative expansion that would follow. As a result of that meeting, UNESCO adopted in the same year the "Major Project on the Extension and Improvement of Primary Education in Latin America", to be completed in 1966.

The next regional conference (Santiago, Chile) in 1962, was a joint meeting of Ministers of Education and Finance which encouraged the idea that education was a necessary condition for economic development. The Santiago Conference set targets of universal primary education in several of the most advanced Latin American countries by 1965. One year later, however, at the Bogotá regional meeting, this target was postponed to 1975. The Buenos Aires conference, in 1966, reiterated the notion adopted in Santiago that education was an investment in economic development. The stimulus that educational systems received from these meetings was important, and all the countries in the Region made significant improvements. This was particularly evident at the 1971 regional conference, held in Venezuela. Between 1960 and 1970 the total in-school population in the Region grew at a yearly rate of 6.1% (UNESCO 1976a,21); this growth outpaced the growth of the school age population in that period. This quantitative expansion of educational systems would not have been possible without major improvements in educational finance. National public expenditures in education in the Region increased noticeably. Educational expenditures in Latin America, as a percentage of Gross National Product, increased from 2.8% in 1960 (UNESCO 1976b,93) to 3.4% in 1976 (Blat 1981,70). It was against that background of quantitative development that the conference in Venezuela, and the next one in Mexico in 1979, set further targets for the improvement of qualitative aspects of educational systems.

In 1979 a look at the success of the recent past seemed to justify hopes and higher aspirations for the future. For example, the Mexico conference suggested increasing public educational expenditures toward a new goal of 7%-8% of Gross Domestic Product (GDP). The underlying logic of these new aspirations may have been that the economic progress which had helped finance the educational expansion of the past would continue. However, a rapid deterioration of the Latin American economies had already begun at the time of the 1979 conference. In fact, only three years after the Mexico regional meeting, Mexican officials suddenly announced their inability to meet their debt

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[2] In Latin America, the regional ministerial meetings provide policy frameworks that influence specific policies designed by each country.

obligations. Although Mexico was not the only indebted country, as we will see, 1982 marks the beginning of the recognition of a "debt crisis" in Latin America.

Latin America is the most indebted region of the world. 11 of the 17 highly indebted countries in the world are in Latin America (World Bank 1988, Vol 1,xviii)..

Table 1 summarizes the increases in debt levels in Latin America. We can observe that the level of debt servicing as a percentage of exports has increased substantially between 1970 and 1987, averaging 4% of growth every year from 1970 levels (unweighted average). Only Haiti and Panama have lower servicing levels in 1987 than in 1970, all the other countries experienced increases in those levels (5% per year on average, if we exclude Haiti and Panama). The increases in debt levels are most significant after 1975.

Table 1. Changes in levels of debt servicing as a percentage of exports in Latin America.

	Debt Servicing as a percentage of exports				Annual growth (%) in Debt Servicing as % exports			
Country	1970	1975	1980	1987	70-75	75-80	80-87	70-87
Argentina	21.6	22.0	16.6	45.3	0.37	-5.48	15.42	4.45
Bolivia	11.3	15.3	27.9	22.1	6.25	12.77	-3.27	4.02
Brazil	12.5	17.9	34.6	26.7	7.45	14.09	-3.64	4.57
Chile	19.2	27.2	21.9	21.1	7.21	-4.24	-0.53	0.56
Colombia	11.6	10.8	8.9	30.7	-1.42	-3.80	19.35	5.89
Costa Rica	10.0	10.7	16.8	12.1	1.36	9.44	-4.58	1.13
Dom. Rep.	4.1	4.7	10.3	16.3[a]	2.77	16.99	7.95	9.01
Ecuador	8.6	4.4	18.9	20.7	-12.54	33.84	1.31	5.30
El Salvador	3.6	9.0	3.3	19.4	20.11	-18.18	28.79	10.42
Guatemala	7.4	1.8	2.4	24.9	-24.63	5.92	39.68	7.40
Haiti	16.7	4.6	4.9	5.1	-22.73	1.27	0.57	-6.74
Honduras	2.8	4.7	10.1	23.0	10.91	16.53	12.48	13.19
Mexico	23.6	24.9	32.1	30.1	1.08	5.21	-0.91	1.44
Nicaragua	10.5	12.0	16.0	10.9[a]	2.71	5.92	-6.20	0.23
Panama	7.7	5.9	6.0	6.5	-5.19	0.34	1.15	-0.99
Paraguay	11.8	9.3	10.2	21.3	-4.65	1.86	11.09	3.54
Peru	11.6	25.6	31.1	12.5	17.15	3.97	-12.21	0.44
Uruguay	21.7	41.2	12.4	24.4	13.68	-21.35	10.15	0.69
Venezuela	2.9	5.3	13.3	22.4	12.82	20.20	7.73	12.78

[a] These figures are for 1986.
Derived from: World Bank. World Debt Tables. 1988.

The average (unweighted) annual growth in levels of debt servicing for all the countries of the region, increased from under 2% between 1970-75, to 5% between 1975-80, and to 6.5% between 1980-87.

The rationale to expect an impact of the external debt in educational finance stems from the adjustment programs undertaken as a response to balance of payments difficulties, structural adjustment involves reductions in government expenditures as a means to curbe domestic aggregate demand. Governments may implement adjustment programs voluntarily or under pressure from international financial institutions in order to receive more loans.

Once governments are faced with the fact that they have to cut their spending, the next question is what has to be cut and the proportion of cuts for each sector. Several studies have documented a negative impact of the debt and the adjustment process in education Latin America.

One study analyzed the social effects of the debt in Mexico, and concluded that education was one of the hardest-hit areas. In one single year, between 1982 and 1983, after Mexico declared its inability to meet debt obligations, educational expenditures fell from 5.5% to 3.9% of GDP and from 9.3% to 7.9% of the total government budget (Dieguez 1986,16). A similar report for Costa Rica concluded that "During the crisis [of 1981-82] dropout rates increased and enrollment rates decreased." (Vedova 1986,7).

Psacharopoulos and Steier directly examined the hypothesis that high debt service payments result in reductions of public expenditures on long gestation social investments like education and health. The authors conclude that in all regions there has been a decline in the investment of government expenditure, but that this reduction has been sharpest in Latin America where debt servicing is highest. In addition, they conclude that the reductions in education as a percentage of government expenditure in Latin America are related to the increase in government servicing of the debt (Psacharopoulos and Steier 1987,3).

Prawda analyzes how the ballooning share of debt servicing in the Mexican budget led to declines in the share for education and in per pupil expenditures (Prawda 1989,182-193).

Tibi (1989) has shown how the pressures that act on government budgets led to cuts in government expenditures in several Latin American countries.

Using data for the countries of traditional Latin America, I have examined elsewhere the association between levels of external debt and public expenditures in education (Reimers 1988, 1989a, 1990b). Combining analysis of time series with several case studies this research concludes that the influence of debt (via structural adjustment programs) on education is not linear, it has a negative impact in this decade, the decade of the debt crisis. The role of politics and of organizational and bureaucratic factors in the formulation of the government budget contribute to these disproportionate reductions in education (Reimers 1990a).

3. Reductions in levels of educational expenditures.

This section summarizes the impact of the adjustment programs implemented during this decade in government financing of education in those countries of Latin America for which data were available. We can observe in table 2 that the annual rate of growth of constant expenditures in education is substantially higher before 1980 than after this period. In all the countries examined constant educational expenditures grew, on average, by 6.99% per year between 1970 and 1979 (unweighted average). After 1980, however, that growth became negative, -0.01% on average. This reinforces our analysis of the impact of the debt on total

educational expenditures; the impact of the debt was to slow down the rate of growth of educational expenditures, and even though there are no net reductions in many countries, in most of them the expansion of educational expenditures flattens out during the period of highest debt levels.

These reductions have led to net reductions in expenditures on education per capita as can be seen in table 3. Between 1970 and 1980 per capita expenditures in education decreased in real terms only in Paraguay. By contrast, between 1980 and 1988 per capita expenditures decreased in real terms in 15 of the 19 countries examined. On average (unweighted) per capita expenditures in education of the central government increased by 3.38% in the 1970s but decreased by 2.39% in the 1980s.

Table 2. Changes in Educational Expenditures of the Central Government (Constant 1980 in national currency units) before and after 1980.

Country	Year	Educational Expenditures Pre 79	1979	Post 80	Annual Growth (%) Pre79	Post 80
Argentina	1976-86	330.00	415.66	376.49	8.00	-0.01
Bolivia	1972-84	2.35	5.30	5.51	12.32	0.01
Brazil	1970-86	46.00	107.86	145.34	9.93	0.04
Chile	1972-86	10.00	44.08	38.75	23.60	-0.02
Costa Rica	1972-86	1103.63	2516.00	2122.24	12.49	-0.02
Dom. Republic	1973-86	122.25	154.49	123.01	3.98	-0.03
Ecuador	1973-85	5339.10	7913.00	12142.60	6.78	0.07
El Salvador	1970-87	183.47	292.60	149.77	5.32	-0.08
Guatemala	1972-79	99.00	109.33	109.34	1.43	
Honduras	1972-79	114.55	182.52	182.53	6.88	
Mexico	1972-87	46.65	119.21	81.94	14.34	-0.05
Nicaragua	1972-80	565.06	498.65	734.00	-1.77	
Panama	1973-86	137.39	163.60	225.85	2.95	0.05
Paraguay	1972-86	4486.57	7003.67	6544.72	6.57	-0.01
Peru	1972-82	152.93	107.17	169.90	-4.95	
Uruguay	1972-86	1705.88	1784.31	1412.04	0.64	-0.03
Venezuela	1970-86	4082.80	9863.90	10908.30	10.30	0.01

Derived from: International Monetary Fund. Government Finance Statistics Yearbook. (several issues).

The third column (Pre 79) contains the expenditures in the beginning of the series indicated in the second column (Year), the fourth column (1979) contains the expenditures in 1979, the fifth column (Post 80) contains the expenditures in the end of the series indicated in the second column. The sixth column (Annual Growth Pre 79) is the average annual percentual growth of expenditures between the beginning of the series and 1979. The last column (Annual Growth Post 80) is the average annual percentual growth of expenditures between 1979 and the end of the series.
The figures are given in the following units:
Argentina: Thousands of Australes; Bolivia: Thousands of Bolivianos; Brazil: Millions of Cruzados; Chile: Billions of Pesos; Costa Rica: Millions of Colones; Dominican Republic: Millions of Pesos; Ecuador: Millions of Sucres; El Salvador: Millions of Colones; Guatemala: Millions of Quetzales; Honduras: Millions of Lempiras; Mexico: Billions of Pesos; Nicaragua: Thousands of Cordobas; Panama: Millions of Balboas; Paraguay: Millions of Guaranies; Peru: Millions of Intis; Uruguay: Millions of New Pesos; Venezuela: Millions of Bolivares.

Table 3. Expenditures of the Central Government in Education per capita in 1988 US dollars, by Country, 1970-1988.

	Expenditures per capita (1988 US$)			Annual Growth Rates (Percentages)		
Country	1970	1980	1988	1970-80	1980-88	1970-88
Argentina	30.75	63.82	37.20	7.58	-6.52	1.06
Bolivia	25.35	37.35	13.11[86]	3.95	-16.00	-4.04
Brazil	16.46	17.36	37.07[86]	0.54	13.47	5.20
Chile	87.20	100.30	62.95	1.42	-5.66	-1.79
Colombia	20.29[71]	36.68	39.99	6.80	1.09	4.07
Costa Rica	62.05	148.40	87.16	9.11	-6.44	1.91
Dominican Rep.	26.72[71]	31.43	15.09	1.82	-8.77	-3.31
Ecuador	25.31	83.79	42.83	12.72	-8.05	2.97
El Salvador	29.92	38.25	26.81[85]	2.48	-6.86	-0.73
Guatemala	28.44[72]	33.58	32.85[87]	2.10	-0.31	0.97
Haiti	2.92	3.86	3.35[85]	2.83	-2.78	0.93
Honduras	25.80	28.62	38.29	1.04	3.71	2.22
Mexico	35.56[71]	89.03	73.13[85]	10.73	-3.86	5.28
Nicaragua	34.38	40.14	30.30	1.56	-3.45	-0.70
Panama	84.71	133.70	145.50[87]	4.67	1.22	3.24
Paraguay	14.89	6.44	15.10[87]	-8.03	12.93	0.08
Peru	49.72	51.48	38.60[85]	0.35	-5.59	-1.67
Uruguay	63.55[72]	64.42	59.78	0.17	-0.93	-0.38
Venezuela	153.10	193.30	165.30[86]	2.36	-2.57	0.48
Unweighted Average Annual Growth				3.38	-2.39	0.83

Derived from: Inter-American Development Bank Economic and Social Progress in Latin America 1989 Report. Washington. D.C.

These reductions are also observed with national figures of educational expenditures. Table 4 summarizes the changes in total educational expenditures as a percentage of government expenditures at the national level. We can notice in table 4 that for most of the countries there are reductions, averaging over 1% per year for the region (unweighted).

Table 4. Changes in levels of educational expenditures as a percentage of total government expenditures.

Country	Period	Education as % of Govmt. Expenditures		Annual % Growth
Argentina	1970-86	14.40	7.50	-4.00
Bolivia	1970-83	28.40	21.30	-2.19
Brazil	1970-85	10.60	17.20	3.28
Chile	1970-85	22.00	15.30	-2.39
Colombia	1970-86	13.60	24.70	3.80
Costa Rica	1970-86	31.80	20.40	-2.74
Dom. Rep.	1970-86	15.90	10.00	-2.86
Ecuador	1970-85	23.20	20.60	-0.79
El Salvador	1970-82	27.60	8.50	-9.35
Guatemala	1970-84	17.50	12.40	-2.43
Haiti	1976-85	7.90	16.50	5.03
Honduras	1970-86	18.40	16.40	-0.72
Mexico	1970-85	8.50	16.20	4.39
Nicaragua	1970-86	18.10	12.60	-2.24
Panama	1970-86	22.10	14.30	-2.68
Paraguay	1970-85	15.30	16.70	0.59
Peru	1970-86	18.80	15.70	-1.12
Uruguay	1970-86	26.10	14.50	-3.61
Venezuela	1970-85	22.90	21.30	-0.48

Source: UNESCO. Statistical Yearbook. Several issues.

Table 5 summarizes the changes in the level of national educational expenditures relative to the Gross National Product. We can notice that there are reductions in 12 of the 19 countries and in one of them there is no growth. Given that most of these countries experienced reductions in the rate of growth of their GNP the decline of educational expenditures as a percentage of GNP indicates a larger decline in the growth of absolute expenditures.

Table 5. Changes in levels of educational expenditures as a percentage of Gross National Product.

Country	Period	Education as % of G.N.P.		Annual % Growth
Argentina	1970-86	1.90	1.80	-0.34
Bolivia	1970-84	3.30	0.50	-12.61
Brazil	1970-85	2.90	3.30	0.87
Chile	1970-85	5.10	4.50	-0.83
Colombia	1970-86	1.90	2.90	2.68
Costa Rica	1970-86	5.20	5.20	0.00
Dom. Rep.	1970-86	2.90	1.60	-3.65
Ecuador	1970-86	4.20	3.40	-1.31
El Salvador	1970-84	2.90	3.00	0.24
Guatemala	1970-85	2.00	1.80	-0.70
Haiti	1970-86	1.30	1.20	-0.50
Honduras	1970-86	3.10	5.00	3.03
Mexico	1970-86	2.40	2.10	-0.83
Nicaragua	1970-86	2.30	6.60	6.81
Panama	1970-86	5.50	5.00	-0.59
Paraguay	1970-85	2.20	1.50	-2.52
Peru	1970-86	3.40	1.70	-4.24
Uruguay	1970-86	3.60	3.10	-0.93
Venezuela	1970-85	4.70	6.80	2.49

Source: UNESCO. Statistical Yearbook. Several issues.

4. Changes in the type of educational expenditures.

This sections analyzes the changes that occur in the distribution of expenditures.

Table 6 shows that there are increases in the proportion of current educational expenditures. We can see that such growth is more noticeable in recent years than between 1970-75 or even 1975-80. The number of countries where the percentage of current expenditures increases in the period goes from 7 in 1970-75 and 1975-80 to 14 in 1980-86. The unweighted average yearly growth goes from negative growth between 1970-75 and 1975-80 (meaning a higher percentage in capital expenditures) to a positive of almost 1% of the base, which is a significant amount considering the high levels of these figures, a yearly increase of less than one percent from a base of 95% going to current expenditures, means an increase to 99.6% over 5 years (as the case of Chile illustrates). This suggests that the more recent years of the adjustment phase have seen a lesser percentage of development expenditures in education.

Table 6. Current Educational Expenditures as a Percentage of Total Expenditures.

Country	Percentage into Current Expenditures 1970	1975	1980	1986	Annual Growth (%) in Current Expenditures 70-86	70-75	75-80	80-86
Argentina	90.7	93.8	84.5	87.7	-0.21	0.84	-2.07	0.62
Bolivia	99.7	99.9	96	99.6[b]	-0.01	0.05	-0.79	0.92
Chile	88.8	94.4	94.9	99.6[a]	0.77	1.54	0.11	0.97
Colombia	78.6	85.4	93.3	93.4	1.08	2.10	1.79	0.02
Costa Rica	96.1	93.5	91.3	91.4	-0.31	-0.68	-0.48	0.02
Cuba			89.5	93.9[a]				0.96
Dom. Rep.	93.1	82.4	75.4[d]	96.9[b]	0.29	-3.01	-2.20	6.47
Ecuador	78.4		94	90.7	0.91			-0.59
El Salvador	93.7	91.7	94.1	87.3[b]	-0.50	-0.54	0.52	-1.86
Guatemala	88.3	91.7	95.5[c]	97.8[b]	0.73	0.95	0.68	0.60
Haiti		88.7	80.1	99.8[a]			-2.02	4.50
Honduras	95.3		91	97.7	0.16			1.19
Mexico	89.9	89.5	91.7	92.7	0.19	-0.11	0.49	0.18
Nicaragua	98.7	79.8	87.5	99.3	0.04	-5.18	1.86	2.13
Panama	92.3	93.6	93.7	97.6	0.35	0.35	0.02	0.68
Paraguay	88.8			81.4[a]	-0.58			
Peru	96.7	96.4	94.4	96.3[a]	-0.03	-0.08	-0.42	0.40
Uruguay			94.7	94.6				-0.02
Venezuela	94.3	95.8	95.1	95.9[b]	0.12	0.40	-0.15	0.21

[a]: Figures are for 1985
[b]: Figures are for 1984
[c]: Figures are for 1981
[d]: Figures are for 1976

Source: UNESCO. Statistical Yearbook. Several Issues

Having seen that a higher percentage of funds goes to recurrent expenditures, the next question is expenditures in what? The following tables explore the changes in the distribution of recurrent expenditures among the three principal categories of spending: salaries, teaching materials and scholarships. Table 7 summarizes those changes in the countries for which the data are available. There is no uniform pattern in the changes in the percentage of current expenditures for Teacher Salaries, between 1980 and 1986; while in some countries there is growth, in others there is decline in the levels of this figure.

The picture is more consistent for what happens to the percentage of expenditures for Teaching Materials. In all countries but Ecuador and Venezuela there are significant reductions, to the point that by 1986 most countries spend less than 1% of their current budget in teaching materials; the rate of decline of this indicator averages about 10% per year. There

are again variations with regard to the portion of the current budget for scholarships. Of the eight countries for which we have data half show reductions and the other half show increases in this item. The levels of variability are restricted since scholarships is a very small portion of the current budget already in 1980.

Table 7. Changes in the distribution of Current Expenditures.

Country	Teacher Salaries 1980	1986	Yearly % Growth	Materials 1980	1986	% Gr.	Scholarships 1980	1986	% Gr.
Argentina		57.1		7.9	0.5	-36.87	5	1.7	
Bolivia	75.7	93.3	11.02				0.2	0.1	
Brazil									
Chile	76.8			5.1					
Colombia									
Costa Rica	50.2	53.5	1.07						
Cuba	38.8	50.5[a]	5.41	6.6	0.8[a]	-34.43	2.5	1[a]	-16.74
Dom. Rep.	62.2	62.9	0.19				2	0.9	-12.46
Ecuador		62.3		0.8	2.6	21.71	0.2	0	
Guatemala	69.1	70.4[b]	0.47	0.5	0.3[b]	-11.99	0.6	0.7[b]	3.93
Haiti	66.9	52.2[a]	-4.84	2.2	1.3[a]	-9.99	1.2	1.9[a]	9.63
Honduras	71.1	60.2[c]	-7.98	2.6	1.3[c]	-29.29	1.6	1.3[c]	-9.86
Mexico	56.6	68.7	3.28		0.9		0.2	0.2	0.00
Nicaragua	69.7	52.3	-4.67	2.2	2.2	0.00	0.7	3.3	29.49
Panama	65.3	61.6	-0.97	1.8	0.9[a]	-12.94	3.8		
Peru	59.4	55.2[a]	-1.46	0.9	0.3[a]	-19.73			
Uruguay	56.9	44.7	-3.94	0.9	0.3	-16.73			
Venezuela	60.7	60[b]	-0.29	1	4.5[b]	45.65	7.4	4.5[b]	-11.69
			-0.21			-9.51			-0.96

[a]: Figures are for 1985
[b]: Figures are for 1984
[c]: Figures are for 1982

Source: UNESCO. Statistical Yearbook. 1988.

5. Changes in current educational expenditures by level.

Table 8 to 10 present the percentage of current expenditures by level of education. We can notice that there is no uniform pattern for all countries of the region. There are more countries where the relative levels of expenditures in primary education decline since 1970 than countries where those levels increase; the number of countries where primary education declines increases in more recent years. Reciprocally, there are more countries where the relative levels of expenditures in higher education increase since 1970 than countries in which those levels decrease. Between 1970-86 eleven countries increased the

percentage of expenditures for higher education, while this figure decreases in only five of them. Comparing the annual rates of growth of primary versus higher education in 1980-86 for each country, we see that in ten countries primary education suffered more than higher education, while there were only five countries in which higher education suffered more than primary education.

Table 8. Percentage of expenditures for Primary Education. Percentage Expenditure Annual Growth in % Exp.

	1970	1975	1980	1986	70-75	75-80	80-86	70-86
Argentina	30.4	27	40.1	37.7[b]	-2.34	8.23	-1.53	1.55
Bolivia	62.1	62.5	58.9	71.9[c]	0.13	-1.18	10.49	1.23
Brazil	7.5	62.7	44.8	45.9[a]	52.91	-6.50	0.49	12.84
Chile		34.9	44.6	51[a]			2.72	
Colombia	36.5		44.4	39.2[a]			-2.46	0.48
Costa Rica	51.2	37.2	28	37.8	-6.19	-5.52	5.13	-1.88
Cuba			24.4	20.7[a]			-3.24	
Dom. Rep.	41.1		36.8	44.4			3.18	0.48
Ecuador	45.9		20.6	48.5			15.34	0.34
El Salvador	57.9	57.5	61.9		-0.14	1.49		
Guatemala	55.2	51.3			-1.45			
Haiti	65.1	63	59.3	51[a]	-0.65	-1.20	-2.97	-1.61
Honduras	64.2		61.9	48.5			-3.98	-1.74
Mexico	47.7	42.9	39.7	27.4	-2.10	-1.54	-5.99	-3.41
Nicaragua	57.9	55.1	44.7	37.8	-0.99	-4.10	-2.76	-2.63
Panama	38.9	39.1	46.3	40.7	0.10	3.44	-2.13	0.28
Paraguay	64.8			36.6[a]				-3.74
Peru	39.8	40.7	45.1	35.6[a]	0.45	2.07	-4.62	-0.74
Uruguay	45.1		48.4	36.5			-4.59	-1.31
Venezuela	38.3	22.1	21.1	28.2[b]	-10.41	-0.92	7.52	-2.16

[a]: Figures are for 1985
[b]: Figures are for 1984
[c]: Figures are for 1982

Source: UNESCO. Statistical Yearbook. Several years.

Table 9. Percentage of expenditures for Secondary Education.

	Percentage Expenditure				Annual Growth in % Exp.			
	1970	1975	1980	1986	70-75	75-80	80-86	70-86
Argentina	30.3	30.5	25.6	27.4[b]	0.13	-3.44	1.71	-0.72
Bolivia	12.8	7.3	11.4	13[c]	-10.62	9.32	6.79	0.13
Brazil	11.1		7.1	7.7[a]			1.64	-2.41
Chile		13.5	18	19.5[a]			1.61	
Colombia	16.9		27	30.8[a]			2.67	4.08
Costa Rica	18.9	22.4	21.5	21.6	3.46	-0.82	0.08	0.84
Cuba			40.8	42[a]			0.58	
Dom. Rep.	18.3		22.9	18.4			-3.58	0.03
Ecuador	41		20.6	33.6			8.50	-1.24
El Salvador	11.8	6.6	6.2		-10.97	-1.24		
Guatemala	16.9	15.5			-1.71			
Haiti	17.8	17.5	20.4	18.1[a]	-0.34	3.11	-2.36	0.11
Honduras	15.4		17.9	17.1			-0.76	0.66
Mexico	27.2	31.1	18.8	16.2	2.72	-9.58	-2.45	-3.19
Nicaragua	17.6	22.4	25.1	18.3	4.94	2.30	-5.13	0.24
Panama	18.7	23.5	22	25.3	4.68	-1.31	2.36	1.91
Paraguay	17.1			29.7[a]				3.75
Peru	20.8	20.8	19.9	20.5[a]	0.00	-0.88	0.60	-0.10
Uruguay	30.4		33.2	27.8			-2.92	-0.56
Venezuela	20.6	18.4	15	6.5[b]	-2.23	-4.00	-18.87	-7.91

[a]: Figures are for 1985
[b]: Figures are for 1984
[c]: Figures are for 1982

Source: UNESCO. Statistical Yearbook. Several years.

Table 10. Percentage of expenditures for Higher Education.
Percentage Expenditure Annual Growth in % Exp.

	1970	1975	1980	1986	70-75	75-80	80-86	70-86
Argentina	21	30.2	22.7	19.2[b]	7.54	-5.55	-4.10	-0.64
Bolivia	10.9	15	17.1	3.2[c]	6.59	2.66	-56.74	-9.71
Brazil	59.3		18.9	19.6[a]			0.73	-7.11
Chile		25.2	33.2	20.3[a]			-9.37	
Colombia	23.9		24.1	22.2[a]			-1.63	-0.49
Costa Rica	10.5	24.4	26.1	39.7	18.37	1.36	7.24	8.67
Cuba			6.9	12.9[a]			13.33	
Dom. Rep.	20.7		23.9	19.7			-3.17	-0.31
Ecuador	9.9	15.6		15.2				2.72
El Salvador	21.4	23.7	14.2		2.06	-9.74		
Guatemala	13.1	19.9			8.72			
Haiti	9.1	11.4	9.6	10.8[a]	4.61	-3.38	2.38	1.15
Honduras	12.2		19.3	20.7			1.17	3.36
Mexico	10.4	12.6	26.5	31.8	3.91	16.03	3.09	7.24
Nicaragua	10	16.5	10.5	21.2	10.53	-8.64	12.42	4.81
Panama	10.8	12.6	13.4	21.6	3.13	1.24	8.28	4.43
Paraguay	16.5			23.8[a]				2.47
Peru	1.9	1.8	3.1	2.7[a]	-1.08	11.49	-2.73	2.37
Uruguay	19		16.1	24.2			7.03	1.52
Venezuela	25.5	37	39.2	43.4[b]	7.73	1.16	2.58	3.87

[a]: Figures are for 1985
[b]: Figures are for 1984
[c]: Figures are for 1982

Source: UNESCO. Statistical Yearbook. Several years.

6. The dynamics of the adjustment in Costa Rica.

With a population of 2.6 million, in 1987, and a per capita income of 1610 US$, Costa Rica stands as a case in Latin America of continued government commitment to education. An analysis of the history of education in Costa Rica concludes that the State has traditionally considered education a mechanism of consensus formation and hence "a cornerstone of the political and ideological option of consensual model assumed by our statesmen" (Fischel 1989,34). In 1868 a law of free and compulsory primary education was passed. Since 1953 Costa Rica has had democratic governments with a strong social democratic agenda[3]. A telling symbol of the government's commitment to education is found in the anecdote that when the national military was abolished, in 1949, the keys to the main military barracks were given to the Minister of Education (Denton 1984,497).

This long term support of education has produced one of the highest literacy rates in the region (93%) and high participation rates at all education levels. Already in 1965 gross enrollment in primary education was 100%, in secondary education it increased from 24% in 1965 to 42% in 1986, and in higher education it increased from 6% in 1965 to 24% in 1986 (World Bank 1989a, 221).

The income distribution in Costa Rica is also better that in most Latin American countries as illustrated in table 11. The 20% of the households with less income, receive 3.3% of the total income (this is higher than all other countries for which we have data, with the exception of Argentina and El Salvador). The 20% of the households receiving more income represent 39.5% of the total income (this is lower than all other countries for which we have data, except Argentina, El Salvador and Venezuela).

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[3] The Costa Rican social democracy, represented by the Partido de Liberación Nacional, has virtually controlled the legislature and alternated in the presidency with a coalition of smaller parties espousing neo-liberal views. The platform of the PLN assigns the state the role of main agent in the promotion of development and general welfare; they espouse heavy state intervention in the economy and an aggressive social welfare policy (Denton 1985,490).

Table 11. Percentage share of household income, by percentile groups of households.

Country	Year	Lowest 20%	Highest 20%
Costa Rica	1971	3.3	39.5
Argentina	1970	4.4	35.2
Brazil	1972	2.0	50.6
El Salvador	1976	5.5	29.5
Panama	1973	2.0	44.2
Mexico	1977	2.9	40.6
Peru	1972	1.9	42.9
Venezuela	1970	3.0	35.7

Source: World Bank. World Development Report. 1989,222-223.

Precisely because of the sustained importance of education, at all levels, in the agenda of all Costa Rican governments, this is a good case to examine the impact of the debt crisis and the adjustment in government financing of education.

6.1. The economic crisis in Costa Rica and the pressure to reduce public expenditures.

The immediate origins of the Costa Rican crisis can be found in the plummeting of coffee prices (Costa Rica's primary commodity export) in 1978, the oil shock of 1979, and the deterioration in demand of the Central American Common Market for manufactures at the end of the 1970s due to political upheaval in the region (IDB 1982,229). The public foreign debt ballooned as a way to compensate these deterioration in the terms of trade. In addition, inflationary pressures and negative interest rates fueled capital flight. International reserves were depleted by 1980 and in August 1981 the government stopped servicing the debt. Since then, the government has adopted adjustment programs tied to negotiations of debt repayments with private creditors and with the International Monetary Fund (IMF). These programs have included, among other targets, reduction of the budget deficit. For instance, in 1983:

> "The Government's economic policy was based on a stabilization program that formed part of the stand-by agreement with the International Monetary Fund (IMF). The agreement was signed in December, 1982, and the resources were fully disbursed by the end of 1983. This program set a number of goals for the fiscal area. One goal was to lower the public sector's global deficit to 4.5 percent (IDB 1984,271).

The pressure to reduced government expenditures was reinforced by subsequent Stand-by-Agreements with the IMF (in

1985,1987) which were

> "a precondition to rescheduling of the external debt and to obtaining additional financial resources from the World Bank and from the international private banking community" (IDB 1986,246-247).

6.2. Changes in the priority of education relative to other areas of government expenditure.

The adjustment changed the priority of education relative to other sectors of government expenditure.
Table 12 shows that total government expenditures (of the central government) declined in real terms in 1981 and 1982, regaining their level in subsequent years. Total government expenditures grew, on average, 4% per year between 1980 and 1986.
During the two years when government expenditures were cut (1981 and 1982) all sectors suffered net reductions (with the exception of social security in 1981), but those losses were offset by increases in the following years. By 1986 most sectors were spending more than in 1980 in real terms, with the exceptions of education, health and economic services. Expenditures in Education in 1986 were 83% of the levels in 1980. Health expenditures in 1986 were 85% of what they were in 1980. Economic Services were 85% of their 1980 levels. The rate of decline of expenditures in education averaged 3% per year, and health expenditures declined at an average of 2.7% per year. Economic Services also declined at 3% per year. All other sectors of government expenditures increased, this increase was most noticeable in Social Security and Housing. In 1986 general public expenditures were 40% higher than in 1980, defense expenditures 8% higher (a paradox in a country without army), social security expenditures increased 3.4 times, housing expenditures 4.25 times, recreation expenditures doubled. The increase in housing expenditures (seemingly at the expense of education and health) suggest a change in the perceived importance of this sector by the politicians, presidential candidate Oscar Arias campaigned promising a new emphasis in public housing: "Taking into consideration that our country had reached important achievements in the areas of public health and education, Arias believed it was a good time to give preference to other needs and demands of the Costa Rican Society" (Fischel 1989,32).

Table 12. Total Expenditures of the Central Government in Constant Millions of Colones (1980) and annual growth in expenditures by sector 1980-86.

Year	Total	Gener.	Defen.	Educ.	Health	SocSec	Housng	Recr.	Econ.	Other
1978	9032	1007	259	2321	2295	729	180	196	1295	930
1979	10154	912	277	2517	2539	776	262	193	1872	974
1980	10369	922	265	2549	2980	736	229	212	1900	1157
1981	8749	793	231	2070	2602	899	204	144	1330	921
1982	6886	706	203	1555	2256	772	201	117	1029	798
1983	8822	775	268	1709	1984	1275	235	451	1778	907
1984	9614	904	295	1768	2358	1076	558	251	1819	1053
1985	9691	932	270	1817	2222	1409	181	228	1678	1109
1986	13083	1290	286	2122	2530	2516	974	428	1605	1516
	Annual Growth in Expenditures by Sector in Constant Terms									
1979	12.43	-9.39	6.96	8.41	10.63	6.45	45.34	-1.50	44.60	4.65
1980	2.11	1.10	-4.25	1.27	17.37	-5.16	-12.59	10.17	1.48	18.82
1981	-15.62	-14.03	-12.84	-18.77	-12.69	22.13	-11.13	-32.31	-29.99	-20.38
1982	-21.29	-10.90	-12.27	-24.91	-13.30	-14.14	-1.21	-18.56	-22.62	-13.42
1983	28.12	9.64	32.38	9.94	-12.06	65.18	17.02	285.38	72.80	13.74
1984	8.98	16.64	9.76	3.45	18.88	-15.59	137.17	-44.35	2.29	16.08
1985	0.80	3.19	-8.29	2.74	-5.75	30.91	-67.62	-9.36	-7.71	5.31
1986	35.00	38.37	6.03	16.82	13.85	78.62	439.19	88.04	-4.36	36.72
Compound growth 1980 to 1986 (Percentage)										
	3.95	5.75	1.30	-3.00	-2.69	22.74	27.29	12.38	-2.77	4.61
Ratio of Expenditures in 1986 to 1980.										
	1.26	1.40	1.08	0.83	0.85	3.42	4.25	2.01	0.85	1.31

Derived from: IMF. Government Finance Statistics Yearbook 1989.

6.3. Changes in the structure of education expenditures and other distortions of the adjustment.

The impact of the adjustment was larger in the lower levels of the system. Educational expenditures for basic education declined in real terms at an average of 4.78% per year between 1980 and 1987, while for Higher Education the decline was only 0.25% per year on average during the same period.
As a percentage of the total education budget, expenditures in basic education declined from 63% in 1980 to 54% in 1987, while expenditures in higher education increased from 34% to 40%.

Table 13. Educational Expenditures by Level of Education in Constant (1978) Colones.

	1980	1982	1984	1986	1987	Annual Growth
Basic	1189	533	633	825	847	-4.78%
INA	69	34	79	107	103	
Higher	639	382	480	628	628	-0.25%
Total	1897	949	1192	1560	1578	
Percentage Spent by Level of Education.						
Basic	62.68	56.16	53.10	52.88	53.68	
INA	3.64	3.58	6.63	6.86	6.53	
Higher	33.68	40.25	40.27	40.26	39.80	

Derived from: Memorias de la Contraloria General de la Republica. Costa Rica.

Although real expenditures per student decreased in all levels of education, this decline was sharper in primary education (averaging 7% per year) and smaller in higher education (averaging 2% per year). In 1986 per student expenditures in primary education were 65% of their levels in 1980, for secondary education they were 74% in general secondary and 77% in tecnical, in higher education they were 90% of their 1980 levels.

Table 14. Real expenditures per student by level (1978 colones)

	1980	1986	Annual Growth	Ratio 86 to 80
Primary	1629	1064	-6.85%	0.65
Secondary General	2218	1642	-4.89%	0.74
Secondary Tecnical	4055	3122	-4.26%	0.77
Higher	12629	11375	-1.73%	0.90

Derived from: World Bank. Costa Rica. Public Expenditure Investment Review. 1989.

Average teacher salaries suffered net reductions between 1980 and 1986 in primary and secondary education. While salaries of primary school teachers grew an average of 10.27% per year between 1975 and 1980, they declined 6.71% per year between 1980 and 1986. In 1986 salaries of primary school teachers were 66% of their 1980 levels "By comparison, in the rest of the economy, real wages, after a 30% decline in 1981-82, have recovered by the

end of 1987 their pre-recession levels" (World Bank 1989b,7). The minimum legal wage was 15% higher in real terms in 1985 than in 1980 and 55% than in 1976 (Vedova 1986,table 16).

Table 15. Average salary of teachers (1975 colones)

Year	Primary Education Salary	Growth	Secondary General Salary	Growth	Secondary Tecnical Salary	Growth
1975	1840		2398		2361	
1980	3000	10.27%	3042	4.87%	2945	4.52%
1986	1978	-6.71%	1804	-8.34%	1761	-8.21%
Ratio 1986-80	0.66		0.59		0.60	

Derived from: Sanguinetty, J. La Educacion General en Costa Rica. 1988,18.

The impact of the crisis was felt disproportionately in infrastructure. The proportion of the budget of the Ministry of Education for current expenditures increased from 77% in 1975, to 96% in 1980 to 99% in 1987 (World Bank 1989b,6).

These distortions in educational finance during the adjustment, together with other effects of the adjustment on the larger context where students live (i.e. reduced income in their households, which could increase the opportunity cost of schooling and of other private contributions of parents to the education of their children) lead to losses in efficiency and equity (to the extent those losses affected disproportionately marginalized groups). For instance, table 16 shows that between 1980 and 1986 the number of teachers in primary and secondary education decreased at an annual average of 1% and 1.7%, respectively, while for higher education teachers increased at an average of 2.93% per year. The number of students in secondary education decreased 2.79% per year on average, while this could reflect actual decreases in the number of children in this age-cohort during those years, it may also reflect that more youngsters were entering the labor force to contribute to household income. From 1979 to 1982 "non-heads of household increased their labor force participation from 57.3% to 63.5% for men and from 23.6% to 26.7% for women. As a result, in 1981 and 1982, twice as many persons in the labor force were seeking work for the first time as was the case in 1979 and 1980" (Fields 1985, quoted in Vedova 1986,7).

Table 16. Number of Institutions, Teachers and Students by level in Costa Rica 1975-1986.

	Preschool			Primary			Secondary		Higher	
Year	Sch.	Teach.	Stdnt.	Sch.	Teach.	Stdnt.	Teach.	Stdnt.	Teach.	Stdnt
1975	318	500	15608	2770	12429	361303	4929	111538		32794
1980	370	673	21857	2936	12596	348674	7157	135830	4382	47340
1981	424	739	23969	2944	10556	348616	6955	133909	4317	
1982	450	752	27584	2971	10312	342373	7307	130337	4343	
1983	483	841	31008	2993	10316	343800	7107	122836		47234
1984	492		29220	3035		350658		117412		47305
1985	536	1302	36356	3091	11526	362877		112531		50047
1986	568	1184	38705	3107	11785	380384	6469	114655	5211	50033
Annual compound growth (percentage)										
75-80	3.08	6.12	6.97	1.17	0.27	-0.71	7.74	4.02		7.62
80-81	14.59	9.81	9.66	0.27	-16.20	-0.02	-2.82	-1.41	-1.48	
81-82	6.13	1.76	15.08	0.92	-2.31	-1.79	5.06	-2.67	0.60	
82-83	7.33	11.84	12.41	0.74	0.04	0.42	-2.74	-5.76		
83-84	1.86		-5.77	1.40		1.99		-4.42		0.15
84-85	8.94		24.42	1.85	5.70	3.48		-4.16		5.80
85-86	5.97	-9.06	6.46	0.52	2.25	4.82	-3.09	1.89	4.66	-0.03
80-86	7.40	9.87	9.99	0.95	-1.10	1.46	-1.67	-2.79	2.93	0.93

Derived from: UNESCO. Statistical Yearbook. Several Years.

There is also evidence of declines in efficiency rates during the adjustment, while in 1980 90% of the students of primary education, on average, where admitted to the next grade, in 1986 this figure decline to 85.6%, for secondary education the decline was from 66.2% to 54.4% (World Bank 1989b,8). Only 66% of children entering primary school will reach the end of 6th grade. Only 41% will do it without repeating (Ibid).

6.4 The crisis and attempts to reform education.

The financial crisis in the education sector (and in the public sector in general) has reduced support for educational reforms justified on long-term gains. The long term has been sacrificed to the short term. In dialectical relationship contracting fiscal resources have accompanied diminished political support for the sector, perhaps because with diminishing resources the consequences of reforms will show clear winners and net losers whereas with growing resources it was possible to alter relative shares (i.e. between levels of education) without making any group worse off in absolute terms. Avoiding the education issue is thus a way for politicians to avoid conflict (also since the Ministry of Education is one of

the largest organizations of the public sector and hence conflicts there would have large visibility). Another non-exclusive possibility is that there are larger marginal political benefits in sectors other than education (housing, for instance in the case of Costa Rica) and in the face of declining resources it is more cost-effective (in political terms) for legislators and members of the executive, to concentrate on those. The possible long-term higher returns to investment in schooling are irrelevant here since a primary objective of policy elites is to stay in power which is an incentive to design policies to win supporting coallitions[4].

Several education reforms have been tried in the last 10 years in Costa Rica to decentralize decision making. The 1978-82 administration attempted an education reform that would decentralize planning and management. This reform was opposed by teacher unions, education bureaucrats, press, Catholic Church, opposition parties (Fischel 1989,23). At the same time the Teachers Union proposed a similar reform which added improvements in the remuneration of teachers, this bill was also turned down by Congress (Ibid,24). During the next administration (1982-86) the PLN attempted another reform which was also not approved by Congress "This was to reflect the lack of political support that educational matters were already receiving" (Ibid,25). The Arias administration (1986-90) tried a new education reform to modernize the education system which was again voted down by Congress (Ibid, 26).

7. Conclusions.

In summary, the debt crisis has changed the scenario in which education policy decisions are made. This change has led to a decline in the fiscal and political support for education. It has also led to distortions in the distribution of expenditures inside the education sector. The cuts seem to have been implemented according to criteria of short term political feasibility to the detriment of long term efficiency and equity.

The impact of the adjustment has been disproportionate in the lower levels of education, in non-recurrent expenditures and in non-salary items. Long-term increases in inequality will result from the impact in basic education. A loss of internal effectiveness will result from the change in the mix of inputs: teachers without teaching materials, dilapidated buildings, students without scholarships, lack of supervision and training for teachers.

These changes can be better understood from the standpoint

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[4] For an insightful discussion of the political economy of public policy see Grindle 1989.

of political economy than from the point of view of straight economic rationality.

> "In its more state-centric applications, the new political economy has sought to provide insight into the behavior of policy elites. It asserts that (elected) political leaders want to stay in power; they will maximize their chances of achieving this end by using policy resources to reward supporters or potential supporters." (Grindle 1989,27).

A larger question is whether this new financial scenario is compatible with the consensual political style illustrated by Costa Rica. Consensus is easier where reforms resulting in changes in distribution of resources don't make anybody worse off in absolute terms (for instance when the emphasis in higher education means a faster rate of growth of resources for that sector but no net losses for other sectors). Declining resources are likely to increase political conflict. When resources are limited any allocative decision requires an equity decision (Thurow 1980,17). If, however, power among groups is not evenly distributed, allocations may follow the interest of the more powerful instead of equity considerations. When economic policy requires losses, those will be absorbed by the groups with less power rather than by the whole population (Thurow 1980,12). The observed changes in education in Latin America in this era of fiscal decline are consistent with this notion. It will not be long before the distortions analyzed here exacerbate the existing gaps in educational opportunity for different groups of the society[5]. Presumably the net losers of these adjustments will try to resist them.

If conflict is more evident when the State has to distribute decline instead of growth the question is whose interests will the State serve and how,when distributing decline in educational funds.

Governments that choose to preserve the interest of the few at the expense of the interest of the many will have to do so at the expense of political legitimacy in democratic regimes. In a sense, the fiscal crisis will be a real test of the renewed democratic era Latin America is entering these days.

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[5] For good discussions of educational inequalities in other Latin American countries see Mingat and Tan 1986, Plank 1989 and Prawda 1989.

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